

COMMONWEALTH OF KENTUCKY
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of

THE APPLICATION OF MIDDLETOWN WASTE)	
DISPOSAL, INC., THE APPLICANT FOR A)	
CERTIFICATE OF PUBLIC CONVENIENCE)	
AND NECESSITY AUTHORIZING THE)	
CONSTRUCTION OF A WASTE WATER)	
COLLECTION AND TREATMENT SYSTEM)	
TO SERVE THE RESIDENTS OF MIDDLE-)	CASE NO. 7732
TOWN INDUSTRIAL PARK, ENGLISH)	
STATION SHOPPING CENTER, AND THE)	
KENTUCKY DEPARTMENT OF TRANSPORTA-)	
TION, DISTRICT # 5 OFFICE IN JEFFERSON)	
COUNTY, KENTUCKY, AND FOR APPROVAL OF)	
SEWAGE SERVICE RATES PROPOSED BY THE)	
APPLICANT)	

O R D E R

PREFACE

On February 6, 1980 Middletown Waste Disposal Inc., (Applicant), filed with this Commission its petition seeking a Certificate of Public Convenience and Necessity authorizing and permitting the construction and operation of a proposed sewage treatment system to serve Middletown Industrial Park, English Station Shopping Center and the Kentucky Department of Transportation, District #5 Office in Jefferson County, Kentucky and for approval of their proposed sewage service rates.

The matter was set for public hearings at the Commission's offices in Frankfort, Kentucky, on August 5, 1980 at 1:30 p.m. by the Commission's Order entered July 14, 1980 and on December 17, 1980 by its Order entered November 14, 1980. The hearings were held as scheduled with all parties of interest being duly notified and no protests being entered. The entire matter is now considered to be submitted for final determination by this Commission.

COMMENTARY

The proposed sewage system has a plant capacity of 160,000 gallons per day with an estimated cost of construction of \$670,497. Of this total cost, the cost of the sanitary sewer estimated at \$259,627 will be recovered through the sale of the developed lots leaving a depreciable cost, excluding land valued at \$48,370, of \$362,500.

At present, the Applicant has approximately fourteen (14) industrial users of the maximum thirty-four (34) potential customers available at completion of the development. The Shopping Center and the Kentucky Department of Transportation for various reasons will not hook on to the sewage system until some unspecified future date.

Bearing this in mind Applicant has agreed to subsidize the operation and maintenance of the sewage system until sufficient customers exist to satisfy these requirements.

Financing for the construction of the sewage facility will be provided by L. & L. Enterprises, a general partnership and owners of Middletown Waste Disposal, Inc., via a loan to the Applicant from L. & L. Enterprises at the same rate of interest L. & L. Enterprises is able to obtain through the sale of Jefferson County Industrial Bonds.

TEST YEAR

Construction on the sewage project proposed by the Applicant has not been completed at this time. Therefore test period information is not available for determination of sewage service rates. Estimated operating expenses were therefore utilized in the determination of revenue requirements and rates.

PROJECTED OPERATING EXPENSES

The Applicant submitted a level of operating expenses projected on the basis of providing service to all lots proposed for development in the Middletown Industrial Park, the English Station Shopping Center and the Kentucky Department of Transportation, District # 5 Office. The Commission is of the opinion that the projected level of operating expenses generally are proper and has accepted these adjustments with the following exceptions:

1. The Applicant proposed to amortize the expense for an initial rate study over a two (2) year period. The Commission is of the opinion that this expense should be amortized over a five (5) year period, as this expense is incurred in the formation of the company and is therefore considered to be an asset (Account 301, Organization) for ratemaking purposes.

(2) The Applicant proposed plant maintenance expenses of \$3,180 and sewer maintenance expense of \$600. Since the plant will be under warranty for the first year of operation, the Commission is of the opinion that plant maintenance expense of \$2,120 and sewer maintenance expense of \$400 are more reasonable estimates for these expenses.¹

(3) The Applicant proposed to include operating supplies expense of \$1,800 in operating expenses. The Commission based on an analysis of other sewer systems with approximately the same capacity² is of the opinion that \$1,050 is a more reasonable estimate for this expense.

(4) The Commission is of the opinion that the Applicant's rent expense should be allocated on the same basis as its salary expense, therefore the amount of rent expense allowed by the Commission is computed to be \$540.³

(5) Applicant proposed a management fee of \$6,000; the Commission believes that this service can be obtained at a more reasonable rate and in keeping with past policy the Commission has allowed \$1,800 for this expense.

Following the above consideration, the Commission has determined that the reasonable level of operating expense for the Applicant's sewer operations is \$52,040. A breakdown of this figure is provided in Appendix "B" to this Order.

REVENUE REQUIREMENTS

As a basis for its revenue requirements, the Applicant proposed to use an operating ratio⁴ of 88%. The Commission is of the opinion that this method is fair and reasonable and has accepted the Applicant's proposal for ratemaking purposes. Therefore, after giving consideration to Income Taxes and Jefferson County taxes of \$1,948, appropriate for this level of income, the Commission has computed Applicant's operating revenue requirement to be \$98,961, as can be calculated from Appendix "B" to this Order.

¹2/3 of proposed expense for both accounts.

²The systems used for comparison are: Lake City, Caven Village, Cooper Chapel, Cogan Co., Inc. and McNeeley Lake.

³Salary expense 6 hr. per week/40 hr. week = 15%; 15% of the total rent expense of Applicant \$300/mo., \$45/mo. = \$540/yr.

⁴Operating ratio is defined as the ratio of operating expenses to operating revenues.

SUMMARY

The Commission, after consideration of the petition and all evidence of record, and being advised, is of the opinion and finds:

1. That the public convenience and necessity requires construction of the proposed sewage system project in the area set forth by the petition and exhibits filed in the record in this matter and said certificate should be granted.
2. That the construction project proposed by the Applicant includes sanitary sewers consisting of six (6) distribution lines, an effluent sewer and two (2) force mains; a 160,000 gpd (gallons per day) sewage treatment plant; and a lift station.
3. That any construction deviations from the proposed plans and specifications herein approved, which could adversely affect service to any customer, should be subject to the prior approval of this Commission.
4. That the total cost of acquisition and installation of the sanitary sewers will be included in the sales price of the developed lots of Middletown Industrial Park.
5. That the operation and maintenance of the system will be subsidized by the Applicant until sufficient customers exist to satisfy this requirement and that no public financing will be required.
6. That the rates proposed by the Applicant and set out as Appendix "A" attached hereto and made a part hereof should produce gross annual revenues of approximately \$98,961 from 34 industrial lots, a shopping center and a district office of the Kentucky Department of Transportation, and are the fair, just and reasonable rates to be charged for sewage services rendered by the Applicant in that they will permit the Applicant to pay its operating expenses, service its debt and provide a reasonable surplus for equity growth.
7. That the Applicant has filed with this Commission a valid third-party beneficiary agreement.
8. That the agreement between the Applicant and the Engineer should require the Engineer to provide general engineering supervision and full-time resident inspection under his supervision to insure that construction work conforms to the best construction practices and is done in accordance with the contract plans and specifications.

9. That the Applicant should provide this Commission with duly verified documentation of the total cost of this project including the cost of construction and all other capitalized costs within sixty (60) days of the date that construction is substantially completed.

10. That within sixty (60) days of the date of substantial completion of this construction, the Applicant should require the Engineer to furnish this Commission with a copy of the "As-Built Plans" and certificate that the construction has been satisfactorily completed in accordance with the contract plans and specifications.

ORDERS IN THIS MATTER

The Commission, on the basis of the findings hereinbefore set forth, and the evidence of record in this matter:

HEREBY ORDERS that the Middletown Waste Disposal, Inc. be and it hereby is granted a Certificate of Public Convenience and Necessity to construct a sewage collection and treatment system in the area set forth in the application and in accordance with the plans and specifications filed in this record.

IT IS FURTHER ORDERED that any construction deviations from the plans and specifications, herein approved, which could adversely affect the service to any customer shall be subject to the prior approval of the Commission.

IT IS FURTHER ORDERED that the agreement between the Applicant and the Engineer shall require the Engineer to provide general engineering supervision and full-time resident inspection under his supervision to insure that the construction work conforms to the best construction practices and is done in accordance with the contract plans and specifications.

IT IS FURTHER ORDERED that the Applicant shall provide this Commission with duly verified documentation of the total cost of the project within sixty (60) days of the date that construction is substantially completed.

IT IS FURTHER ORDERED that the Applicant shall require the Engineer to furnish this Commission with a copy of the "As-Built Plans" and certification that the construction has been satisfactorily completed and was done in accordance with the contract plans and specifications, within sixty (60) days of the date construction for project is substantially completed.

IT IS FURTHER ORDERED that the rates set forth in Appendix "A" be and hereby are fixed as the fair, just, and reasonable rates for the Applicant to charge for sewage service rendered to its customers on and after the date of this Order.

IT IS FURTHER ORDERED that the Applicant file with this Commission, within thirty (30) days of the date of this Order, its tariff sheets setting forth the rates and charges approved herein and all rules and regulations of the Applicant for providing sewage service to its customers.

Done at Frankfort, Kentucky, this 23rd day of January, 1981.

UTILITY REGULATORY COMMISSION

Did not participate.

Chairman

John H. Egan
Vice Chairman

Mary Kay Ocken
Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY
COMMISSION IN CASE NO. 7732 Dated January 23, 1981

The following rates are prescribed for sewer services rendered to all customers served by Middletown Waste Disposal in Jefferson County, Kentucky.

RATES:

Middletown Industrial Park
\$.08 per gallon per day per month
Minimum Monthly Charge \$80.00 per month

English Station Shopping Center
\$.08 per gallon per day per month
Minimum Monthly Charge \$30.00 per month

Kentucky Department of Transportation District #5 Offices
\$.08 per gallon per day per month
Minimum Monthly Charge \$200.00 per month

APPENDIX "B"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY
COMMISSION IN CASE NO. 7732 DATED January 23, 1981

This is a Summary of projected revenues and expenses of the Middletown Waste Disposal, Inc. based on the provision of service to all potential customers including Middletown Industrial Park, English Station Shopping Center and the Kentucky Department of Transportation, District #5 Office.

Operating Revenues: \$ 98,740

Operating Expenses:

Accounting	\$ 1,180
Office Salary	1,560
Plant Operating Contract	3,600
Plant Maintenance	2,120
Sewer Maintenance	400
Operating Supplies	1,050
Water Co. Collect. Fee	296
Health Dept. Fee	700
Purchased Water	900
Insurance	1,500
Legal & Professional	1,200
Electrical Power	7,200
Sludge Disposal	900
Office Rent	540
Property Taxes	4,212
State Corp. Tax	15
Misc. Operating Expense	360
Management Fee	1,800
Depreciation	21,233
Income & Jefferson Co. Tax	1,941
Total Operating Expenses	\$ 52,707
Interest Expense	\$ 38,846
Net Income	\$ <u>7,187</u>